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IMPLEMENTING THE PORTFOLIO (SBU) CONCEPT

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## IMPLEMENTING THE PORTFOLIO (SBU) CONCEPT

During the past decade the concept of corporate strategy has enjoyed widespread and increasing popularity. One result of this popularity has been the development of sophisticated strategic planning systems within large, diversified firms. The portfolio or SBU concept has been unmatched in popularity as a basis for these planning systems. A recent article in Fortune magazine about corporate strategy even refers to the portfolio concept as having "magical appeal" for corporate managers.<sup>1</sup> Independent of the specific reasons, the portfolio concept is strongly established as the primary basis for strategic planning systems in many large, diversified firms. Yet, despite this popularity, there has been surprisingly little research on the implementation process and its implications for effective strategic management. Furthermore, in numerous conversations with executives the authors have found the implementation problems of "making it work" are, in fact, a pressing concern. This article summarizes the authors' research in this area and provides some guidelines based on that research that run counter to the conventional wisdom about implementation.

### The Portfolio Concept

Although there are numerous slight variations of the portfolio concept, they all rely on a matrix or grid similar to the one shown in Exhibit 1. The matrix classifies businesses by product/market attractiveness along one axis and competitive position along the other axis. There are two basic approaches to measurement along these scales. One approach relies on a single measurable criterion along each axis while the other approach uses multiple measures (including subjective ones) along each axis (see Exhibit 2). Typically the

matrices or grids are divided into either four or nine "boxes" although the authors have observed some with significantly more. Exhibit 2 illustrates two of the most commonly encountered matrices.

Regardless of the particular layout chosen for the matrix, the basic idea behind the portfolio concept remains the same: the position (or box) that a business occupies on the matrix should determine the "grand thrust" or "mission" around which the strategy for the business is developed. Although these missions vary somewhat depending on the particular matrix, the top half of Exhibit 2 provides a typical illustration. (The discussion of implementation below is independent of the particular matrix used.) Here the mission of the "cash cows" is to generate cash flow that can be re-deployed to promising "question marks." The mission of the "question marks" is to aggressively gain competitive position with the needed investment funds coming from the cash cows. (Obviously the number of question marks in the corporate portfolio must be balanced with the cash generation capabilities of the cash cows.) The mission of the stars is to ensure their own long-term competitive position. Finally, the mission of the dogs is to generate positive cash flow until they can be opportunistically divested. Although this introduction to the portfolio concept has been brief, it will be adequate for the authors' later developments. The key point is that different boxes on the matrix denoted different grand thrusts or missions for the business. The reader who is unfamiliar with the portfolio concept or who desires a deeper understanding can refer to several references.<sup>2</sup>

#### What Conventional Wisdom Says About Implementation

Around the portfolio concept there has developed an informal conventional wisdom for using it as a basis for a strategic planning system. The authors

have found it in popular articles, in the executive offices of companies thinking about adopting the portfolio concept, and in the classrooms of several business schools and management development programs. The logic of the conventional wisdom is at once simple and compelling. When analyzed and distilled the conventional wisdom holds that there are three major steps in implementing the portfolio concept as the basis of a planning system:

- (1) The firm is divided into strategic business units or SBU's. This involves determining the different businesses the firm is in by specifying the economically distinct product/market segments and the firm's resources that are dedicated to each segment. The objective is to divide the firm into the most relevant strategic entities.
- (2) Each of these SBU's is evaluated against the dimensions of the matrix. On the basis of this analysis the appropriate grand thrust or mission is assigned to each SBU.
- (3) A strategy is developed within each SBU and reviewed by corporate management to ensure congruence with the assigned mission.

This view of implementation is a straight-forward extension of the basic logic of the portfolio concept. Unfortunately the authors have found that this approach does not work in most large, diversified firms. In a study of ten firms with varying levels of experience with the portfolio concept one of the authors found that none had been successful using the conventional wisdom.<sup>3</sup> Instead a significantly different approach evolved within these firms. Further research by both authors confirmed this result. Several reasons underlie the failure of the conventional wisdom, and to them we now turn.

#### Why the Conventional Wisdom Is Often Inappropriate

The conventional wisdom is inappropriate for most large, diversified firms because it implicitly assumes that a firm can be unambiguously divided

into a "reasonable number" of independent (in terms of markets and production processes) "single businesses." If a firm can be unambiguously divided into independent, single businesses, then these businesses can be defined as SBU's and each assigned a mission independent of the others. Furthermore, the term "reasonable number" means that the number of businesses (constituted as SBU's) is small enough that corporate level management can develop the matrix positions, assign the missions, and review SBU strategies and performance to ensure congruence with the assigned missions. However, the authors' research has shown that for large, diversified firms: (1) SBU's cannot be unambiguously constituted as single businesses; (2) the extent of diversification precludes the "reasonable number" criterion discussed above, and (3) the relatedness of diversification can preclude the independence of the SBU's.

#### The Ambiguous Notion of A Single Business

The concept of what constitutes a single business is difficult to operationalize. The nature of the problem stems from the fact that a product/market segment can be defined in a variety of ways. In fact, there is generally a whole hierarchy of product/market segments. As a hypothetical example consider a firm that among other things manufactures and markets appliances. A logical breakdown might be into specific products (e.g., washers, ranges, microwave ovens., etc.). Alternative breakdowns (from among many possibilities) could be into commercial and home appliances, into different price/quality segments, or into different geographic segments. These breakdowns could be combined to yield increasingly finer segments (e.g., the commercial, microwave oven business, or the European, high quality home dishwasher business). So, in sum, SBU's could be defined in a myriad of different ways ranging from the entire appliance business to much smaller segments such

as the European, high quality, home dishwasher business. Regardless of which segments are eventually chosen to define these businesses, arguments could be advanced for other segments. Since segments finer than those finally selected will generally exist, arguments could be advanced that the definition aggregates several single businesses. Furthermore, it is easy to see that the position of the business on the matrix may depend on the definition chosen for the SBU. For example, if the entire appliance business is defined as an SBU, then a "cash cow" mission may be appropriate. However, in a finer breakdown by product the microwave oven business could quite conceivably be defined as an SBU with a "question mark" mission. The hierarchical nature of product/market segments frustrates the unambiguous definition of single businesses as SBU's.

#### The Extent of Diversification

Closely related to the problems caused by the ambiguous nature of a single business are the problems inherent in the extent of diversification present in large diversified firms. The basic nature of the problem is that the number of product/market segments in which these firms participate is so large that it completely swamps the "reasonable number" criterion described above.

As an example consider the Eaton Corporation, a firm which had sales of \$2.11 billion in 1977 and is certainly not considered to be a conglomerate. In the Eaton 1977 Annual Report reference is made to over 400 product/market segments that are said to consist of "a single product or family of related products which go into a well defined and unified market." Examples given include economy truck transmission, narrow aisle lift trucks, agricultural scales, and gas control valves. Is it reasonable to expect that for each of these over 400 product/market segments meaningful strategy and performance reviews can be conducted by corporate management? Furthermore, what size staff

would be needed merely to develop the information necessary for positioning these segments on the matrix. The scope of such efforts at the corporate level would certainly need to be heroic if not foolish. The application of these results to most large, diversified corporations will obviously yield similar results.

### The Relatedness of Diversification

Intimately interwoven with the ambiguous nature of a single business is the related manner in which most large firms are diversified. It is a known fact that most firms tend to diversify into areas related to their "core" business.<sup>4</sup> The notable exceptions are, of course, the conglomerates. This relatedness of diversification exacerbates the already ambiguous nature of a single business and simultaneously prevents the achievement of independent SBU's. The residual dependency among SBU's frustrates the assignment of missions independently to each SBU because the SBU's themselves are no longer strategically independent entities.

As an example of these ideas consider the previous example of appliances, only this time assume a firm initially only manufactures and markets home washers and dryers. Diversification could logically take this firm into the manufacture and sale of home microwave ovens and trash compactors. This move itself will exacerbate the problems associated with business definition as previously discussed. Furthermore, assume that the washers and dryers are defined as a "home laundry" SBU and that the microwave ovens and trash compactors defined as a "home kitchen" SBU. These two SBU's are obviously not strategically independent since, among other things they may share distribution channels, be often bought in combination (i.e. by housing contractors), share a common assembly facility, and mutually benefit from brand name advertising efforts. Inevitably there must be some coordination of strategy among the two



and this will be extremely difficult if different strategic missions are assigned (e.g. cash cow for the laundry SBU and question mark for the kitchen SBU). Grouping them all together into an appliance SBU will probably result in the assignment of an inappropriate mission to some parts (i.e. overall cash cow mission would probably be inappropriate for the trash compactors). The alternative of breaking them down farther (e.g. washers, dryers, microwave ovens, and trash compactors) will only increase the interdependency between them. As this example illustrates the related nature of much diversification prevents the achievement of independent SBU's and hence reduces the usefulness of the conventional wisdom for implementing the portfolio concept. In view of this and the arguments of the previous two sections the conventional wisdom would seem to be of limited usefulness. We now turn to a more useful approach which the authors have found helps overcome these objections.

#### An Alternative Approach to Implementation

The alternative approach is much less dogmatic than the conventional wisdom. It relies more on a flexible, situational matching of implementation to the circumstances of the particular firm. Specifically, the alternative approach involves the hierarchical application of the portfolio concept at multiple organizational levels, the coordination of inputs among these levels, and the purposeful but limited variation of managerial systems and processes across different strategic missions.

#### Hierarchical Application

Under the conventional wisdom, the management of a firm confronts a dilemma in the definition of SBU's. If each distinct product/market segment is used as the basis of an SBU, then the number of SBU's is likely to be unmanageably large from the corporate level. On the other hand, if only a

manageable number of SBU's are defined, then the mission assigned to any particular SBU is likely to be inappropriate for substantial segments of the SBU (since the SBU is actually an aggregation of businesses). Furthermore, a strategic plan based on a single mission for such an aggregated SBU will likely ignore substantial differences among the component businesses.

To overcome this dilemma it is necessary to recognize that the application of the portfolio concept must be hierarchical in order to mirror the hierarchical nature of product/market segments. In this manner descending levels of the hierarchy can be used to refine the analysis and to achieve a better matching of strategic entity to product/market segment.

Although the authors believe that several levels of analysis may be ultimately necessary in some firms, they have observed that two overcome most of the problems associated with the conventional wisdom. Hence the subsequent discussion will concentrate on a two level hierarchy. The extension of these ideas to hierarchies with more levels should be obvious.

To illustrate the nature of these ideas again consider the appliance example. Among other things, a firm produces and markets home appliances. From the corporate level an SBU called "home appliances" is created and assigned a cash cow strategic mission. At the same time, although a home appliance SBU is created, both corporate management and SBU management recognized that this represents a coarse or "aggregated" level of analysis that must be subsequently refined. In turn, the management of the SBU refines the analysis by "disaggregating" it into segments such as home laundry (washers and dryers), microwave ovens, dishwashers, and trash compactors. Exhibit 3 details the nature of the differences between the two levels of analysis. While the corporate level depicts a monolithic cash cow mission, the SBU level shows several

strategic entities with both cash cow and question mark missions. Examination of this example shows that there are three essential steps.

(1) Group related businesses together to form aggregated SBU's.

The essential logic of this step is that (as discussed earlier) each SBU must make sense as a single, though aggregated, product/market segment. How else can product/market attractiveness and competitive position be evaluated and how else can a meaningful (aggregated) strategic mission be assigned? The necessity of such a step arises because (as previously discussed) a division of a firm into all of its product/market segments results in a number that is unmanageable from the corporate level (i.e., the need to aggregate arises). The obvious question is how much to aggregate. No simple answer is possible, but there are some general guidelines. The number should be manageable from the corporate level. This will obviously depend on the management style of the CEO and on the amount and quality of staff support available. However, the authors have not observed any stable planning system with more than 45 SBU's, and hence this number may be taken as an approximate, practical upper limit. (The authors have observed firms starting implementation with over 100 SBU's, but this number rapidly decays as the management overload at the corporate level is felt.) Second, the more related the businesses of the firm the fewer SBU's that are required. In essence the more related a firm is, the fewer different businesses it is in. One of the authors studied the relatedness of six large firms using the portfolio concept as a basis for strategic planning. The results are illustrated in Exhibit 4 and show that the number of SBU's ranged from 6 for the smallest and most related to 43 for the largest and least related.<sup>5</sup> So, in sum, the practical range would seem to be approximately from 2 to 50 (aggregated) SBU's.

One interesting implication of this aggregation process would seem to be that use of the portfolio concept as a basis for a corporate-wide planning system by large conglomerates is limited. By definition a conglomerate participates in unrelated businesses. Therefore, they cannot meaningfully be aggregated. (What is meant by product/market attractiveness and competitive position of an SBU composed of an insurance business and a rental car business?) Hence, if the conglomerate participates in more than about 50 different businesses, the portfolio concept is not a practical approach. (Interestingly, the authors are not aware of any large conglomerate which has adopted the portfolio concept as the basis of a corporate-wide strategic planning system.) Exhibit 5 illustrates the nature of the aggregation problem in terms of the extent and relatedness of diversification as it applies to conglomerates and other types of firms.

Once the definition of aggregated SBU's is complete, they may be evaluated against the dimensions of the matrix.

(2) Develop the aggregated strategic mission.

The second step is straight-forward and similar to the conventional wisdom except that the aggregated nature of the SBU is recognized. For the home appliance example a cash cow mission as shown in Exhibit 5 could conceivably be appropriate. The next step is to proceed down the hierarchy to the next level of analysis.

(3) Define the component businesses of the SBU and develop appropriate strategic missions for them.

This step represents the disaggregation of the previous corporate level analysis and takes place at the SBU level. The logic is that a refinement of the corporate level analysis is made to incorporate the finer product/market

structure of the firm at an organizational level where the appropriate expertise is available. Exhibit 3 illustrates this for the home appliance example. Although at the disaggregated level a cash cow mission still predominates, other missions for other segments of the SBU are apparent.

The experience of the authors has been that generally from 2 to 15 segments of each SBU are identified and evaluated in this step. Given the earlier discussion about the practical limits on the number of SBU's one can now envision a total of several hundred product/market segments being identified and evaluated. Even for extremely large firms such numbers can provide a reasonably clear picture of the product/market structure. At this point the argument has been developed to where the necessity to coordinate the two analyses should be obvious.

#### Coordinating the Inputs

If there is no coordination between the two levels of analysis then inevitably substantial disagreements can develop among corporate and SBU managers. Each will hold a single partially exclusive view of any particular SBU. For example, a particular SBU may be seen at the corporate level as pursuing a "pure" cash cow mission. If the plans and capital budget of this SBU are devised using a disaggregated analysis (as they should be) then the corporate review will likely focus on the gap between the cash cow mission and the actual content of the plans. In our home appliance example (see Exhibit 3) the corporate expectation may be for a \$50 million annual cash throw-off from the SBU. However, the SBU plans may reflect only a \$25 million throw-off with the remaining \$25 million being invested in the microwave oven and trash compactor businesses. Naturally a process of negotiation always occurs around plans, but this negotiation cannot resolve a fundamentally different view of an SBU.

To overcome such difficulties the authors believe that it is necessary to consciously build in mechanisms for coordinating the two levels of analysis. Although no single definitive set of mechanisms is currently known to exist, some which are known to be useful can be discussed.

Perhaps the most obvious and yet the most important mechanism is explicit recognition at both levels of analysis of the perspective of the other. In essence this facilitates the planning process by legitimizing the different perspectives of both participants as complementary instead of mutually exclusive. This can be accomplished through planning conferences, management development programs (which stress the hierarchical nature of the portfolio concept), and the actual design of the planning systems. The planning manual, if one is used, should recognize both levels of analysis and their necessity.

The strategic planning system should be designed around the two levels of analysis. The system should be structured so that the basic planning entities are the individual segments of each particular SBU. The SBU plans reviewed at corporate level should be aggregations of these plans stressing overall SBU strategy with short summaries of the individual segments and their missions included (perhaps in an appendix). Furthermore, the basic financial objectives of an SBU can be stated within the plans in a summary form (perhaps in an appendix) which shows how they are arrived at by aggregation.

Each year the detailed plans of a limited number of segments of SBU's can be carefully scrutinized at the corporate level. These segments can be chosen randomly or for their strategic relevance to the firm as a whole. Such an audit in addition to its direct benefits communicates the importance of the individual SBU segments as planning entities and reinforces the basic hierarchical nature of the planning system.

### Differentiating Management Across Missions

An inherent assumption of the portfolio concept is that different businesses may have different strategic missions. Furthermore, a fundamental assumption of strategic management is that management systems and processes should be tailored to the strategy. Combining these two leads to the conclusion that different strategic missions require different types of management or alternatively that management should be differentiated across strategic missions (e.g. a "star" and a "question mark" should be managed differently).

What components of management should be varied and how should these components be varied? The appropriate guideline is to make variations across missions only when these variations will not frustrate aggregation or disaggregation. The authors have generally found that it is useful to make some variation of managerial selection, the reward system, and the capital budgeting system across strategic missions. This variation should occur at both levels of analysis.

It is a widely observed fact that some executives make excellent managers for certain "types" of businesses but are ineffective for other types. Such an observation is, of course, neither new nor revolutionary. What is new is that the different strategic missions embodied in the portfolio concept provide a new and more specific template for measuring managers against the job. This template can and should be used at both the aggregated and disaggregated levels of analysis. As an example, the authors are aware of one corporation which uses a matrix similar to the upper half of Exhibit 2 where a star mission is associated with an "analytical" type of manager, a cash cow with an "engineer" type, a question mark with a "salesman" type, and a dog with a "cost accountant" type. Executives in this firm indicate that although these stereotypes are far from completely accurate, they are roughly correct for

many of the firm's managers. The important point is that in selecting a manager for a particular business, the fit between the style and personality of the manager, and the strategic mission of the business should be a major consideration.

Another component of management which should be varied across the strategic missions is the reward system. The logic involved here is once again simple. A manager should be rewarded for performance against his assigned strategic mission as embodied in his strategic plan. Hence, for example, managers of cash cows should be rewarded for generating cash and managers of question marks should be rewarded for gaining competitive position even at the expense of current profits. One implication is that a manager of a question mark may receive a significant bonus for gaining competitive position even though profits were minimal and substantial investment funds were used from other businesses. On the other hand, a cash cow manager may receive no bonus because, although his ROI was substantial it fell considerably below the agreed upon objective in his plans. The important point is that managerial motivations need to be aligned with differing strategic missions (aggregated or disaggregated) instead of a uniform corporate directive to increase earnings/ROI each year.

A final component of management that needs to be differentiated across strategic missions is capital budgeting. Resource allocation is one of the main (if not the main) levers available to corporate management to ensure that the missions are implemented. To do this requires that the essence of justifying a capital project should revolve around the strategic mission. For example, a capital project for a question mark could have a relatively long payback and low return if the competitive position could be significantly improved. By contrast a capital project for a dog should require an immediate



and high return to justify using funds there. As a further example, a government mandated pollution control system should be almost automatically approved for a star, but with a dog abandonment would have to be considered. In general, specific criteria should be developed for approval of projects for each of the strategic missions and these criteria should be applied at the disaggregated and aggregated levels of analysis. In this manner resources can be distributed in congruence with the differing strategic missions.

#### The Alternative Approach: A Review

To summarize the alternative approach to implementing the portfolio concept as the basis for a planning system, a short review should be useful.

The alternative approach starts with the assumption that in order to obtain a manageable number of SBU's at the corporate level and yet to reflect the full diversity and complexity of the firm's product/market structure, a hierarchical application of the analysis is necessary. At the corporate level of the hierarchy the authors' research shows that the practical upper limit is about 50 SBU's. The actual number will depend on the diversity of the firm, the management style of the CEO, and the amount and quality of staff support available. At the SBU level a disaggregated analysis of from 2 to 15 segments composes the second level of the hierarchy. (A further breakdown at the segment level may also be useful in some firms.) Hence, with two levels of hierarchy in the planning system, a product/market diversity of up to several hundred segments can be reflected.

To help coordinate the inputs between the two levels specific mechanisms such as those suggested earlier need to be designed into the system. Furthermore, each level needs to recognize the legitimacy and necessity of the other level of analysis. One further comment deserves to be made here. The SBU

manager is truly in the middle. He is positioned at the interface between the two views. He needs to be able to conceptualize the SBU as operating with a single (though aggregated) strategic mission in relating to corporate management. At the same time he must be sensitive to the varying strategic missions of his segment managers. In essence he is the most important coordinating mechanism and must be able to see the world in two different but complementary ways. This is a new and different role from the traditional division manager. The authors have not closely studied this new role but believe it deserves close scrutiny.

After the two levels of the hierarchy have been defined, certain management parameters (as discussed earlier) need to be varied across the varying strategic missions at both levels. The underlying assumption here being that different strategic missions require different types of management.

The alternative approach to implementation as just reviewed represents a significant departure from the conventional wisdom. The authors believe this departure overcomes many of the problems firms encounter in developing a strategic planning system based on the portfolio concept. Complementing this approach is a new perspective on the use and meaning of the portfolio concept in large, diversified firms.

#### The Portfolio Concept: A New Perspective

The conventional wisdom is essentially a dogmatic approach. It stresses a single uniform approach to implementation that is localized at the corporate level. Corporate level executives (including staff assistance) unambiguously define the independent SBU's, evaluate them against the dimensions of the matrix, and assign the appropriate strategic mission. The conventional wisdom is essentially a corporate level framework. The authors have found that a

substantial appeal of this approach is that it promises to recentralize a significant portion of the business strategies. What CEO has not wished for additional control over the direction of individual businesses. Such control is illusory however.

Instead of centralized control of business strategies, the authors believe the portfolio concept offers a general approach to strategy development throughout the firm that can be matched to the specific circumstances of a business or managerial level, but still retain a uniformity of approach. Specifically the portfolio concept is a common set of strategic assumptions and a common language for dealing with strategy in a diversified firm. Furthermore, both the language and the assumptions are independent of the individual characteristics of any particular business.

Inherent within the portfolio concept is a common set of assumptions about strategy. This includes how the strategic mission of the business is established (by evaluation against the dimensions of the matrix). Furthermore, the strategic mission contains certain assumptions about the broad strategic role of a business. These assumptions are, in fact, the strategic mission. For example, a cash cow should generate substantial cash for deployment elsewhere. Similar assumptions are contained in any other strategic mission regardless of the particular matrix used. Notice that these assumptions are independent of the detailed characteristics of any particular business. A cosmetics business and a home appliance business may have the same generic strategy even though the detailed nature of these two businesses is substantially different. Furthermore, the method of establishing or questioning this common strategic mission is the same (i.e., by evaluation against the dimensions of the matrix) and does not depend on the individual characteristics of the different businesses.

The portfolio concept also provides a common language independent of the idiosyncrasies of any particular business for talking about strategy. The cosmetics business and the home appliance business can be discussed in terms that are independent of each business. There are, of course, many features of the total strategy, as opposed to the strategic mission, that can only be discussed in industry specific terminology. Still a significant, independent terminology is contained within the portfolio concept.

The implications of this common set of assumptions about strategy and common language for communicating about strategy are straightforward and yet significant. This set of assumption and language permits the hierarchical determination of strategy discussed earlier while still maintaining a consistent and interrelated approach. The determination of a business' strategy can be logically split between the aggregated and disaggregated analyses, and yet consistency of approach and coordination among the two processes can be maintained. Furthermore strategic communication is facilitated both horizontally and vertically.

Contrast this to the the situation without the portfolio concept. Here the strategies are seen as entirely dependent on detailed knowledge about the specific businesses. The standard view of strategy was set forth by Andrews (1971) in The Concept of Corporate Strategy. Consider the following from this book:

Deciding what the strategy should be, is at least ideally, a rational undertaking. Its principal subactivities include identifying opportunities and threats in the company's environment and attaching some estimate of risk to the discernible alternatives. Before a choice can be made, the company's strengths and weaknesses must be appraised. Its actual or potential capacity to take advantage of perceived market needs or to cope with attendant risks must be estimated as objectively as possible. The strategic alternative which results from a matching of opportunity with corporate capability at an acceptable level of risk is what we may call an economic strategy.<sup>5</sup>

Notice how Andrew's concept of strategy is highly dependent on idiosyncratic knowledge of a particular business. Specifically, one must be knowledgeable of both the environment (threats and opportunities) and the internal strengths and weaknesses, and this requires in-depth knowledge of the business. Furthermore, for each business in a diversified firm this knowledge will be substantially different. The only generally imposed strategic direction from the corporate level will be the imperative to "maximize or improve earnings/ROI" in each business. There is no generally shared set of assumptions (i.e., question marks should rapidly gain competitive position) and no common language for talking about strategy under this approach. The business strategies become highly decentralized at the divisional or product/market profit center level. It is difficult or impossible for managers not directly involved to understand and hence question the strategy of a particular business. Contrast this to the situation under the portfolio concept, where the same language and assumptions are used by managers throughout the firm. Although many components of a business strategy must still be developed within the guidelines suggested by Andrews the language and assumptions of the portfolio concept still provide the core of the strategy. It would seem that the portfolio concept can be used in large, diversified firms to facilitate and rationalize strategy throughout the firm. However, this can only be achieved by adopting a flexible, viewpoint instead of the dogmatic approach of an unambiguous corporate level strategy framework.

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3. Richard A. Bettis, Strategic Management in the Multibusiness Firm: Implementing the Portfolio Concept, Doctoral dissertation available from University Microfilms, Ann Arbor, Michigan, 1979.
4. Richard P. Rumelt, Strategy, Structure, and Economic Performance, (Cambridge, Massachusetts: Harvard University Press, 1974).
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## EXHIBIT 2

### TWO POPULAR MATRICES

		Market Share		
		High	X%	Low
Market Growth	High	2		1
	Y%			
Low	Low	3		4

#### Strategic Missions:

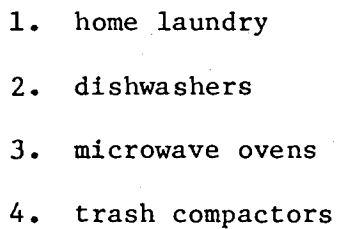
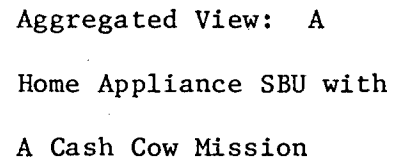
- 1) Question Mark
- 2) Star
- 3) Cash Cow
- 4) Dog

		Business Strengths		
		High	Medium	Low
Industry Attractiveness	High	1	1	2
		1	2	3
Low		2	3	3

#### Strategic Missions:

- 1) Invest/Grow
- 2) Selectivity Earnings
- 3) Divešt/Harvest

### Aggregation/Disaggregation Example



note: diameter of circles proportional to sales.



## EXHIBIT 4

AGGREGATION AND DIVERSIFICATION

<u>Diversification Category A</u>	<u>Firm</u>	<u>Rank of 1977 Sales</u>	<u>No. of SBU's</u>
Dominant Vertical	JKL	4	6
	PQR	3	14
Related Constrained	ABC	5	24
	GHI	6	30
Related Linked	MNO	2	38
	DEF	1	43

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A. As fully described in Richard P. Rumelt, Strategy, Structure and Economic Performance, (Cambridge, Massachusetts: Harvard University Press, 1974). The three categories used here may be summarized as follows:

Dominant Vertical - a vertically integrated firm deriving 70-90% of annual revenues from "base" business.

Related Constrained - a firm deriving less than 70% of annual revenues from "base" business to each other.

Related Linked - a firm deriving less than 70% of annual revenues from "base" business where the component businesses although related are not all related to each other.

EXHIBIT 5

THE AGGREGATION PROBLEM

